



BIRMINGHAM

EXECUTIVE SUMMARY

- Demand for large-scale office accommodation continues to be a major theme in Birmingham. Above average take-up in 2019 is expected to be repeated in 2020, which should underpin rental growth as supply dwindles.
- Although retail space in Birmingham has been more resilient than elsewhere in the U.K., largely due to strong city centre and restaurant performance, the sector is expected to continue declining in the secondary markets.
- Industrial growth is continuing rapidly, with the first phase of the major Peddimore development providing significant room for expansion in late 2020.
- Birmingham's universities continue to drive innovation. High-profile projects include the Life Sciences Park fronted by the University of Birmingham, BCU's Steamhouse Project and the phased expansion of Innovation Birmingham.

The U.K.'s second largest city has been the subject of considerable development across the office, industrial and residential sectors with the pipeline continuing to grow. Infrastructure in Birmingham is undergoing significant change too, with the latest extension of the Metro due to complete in the next year, along with major mixed-use schemes including the Paradise development. In the longer-term, the attention and investment attracted by hosting the Commonwealth Games in 2022 will begin to materialise along with the HS2 rail project, of which Birmingham will be a key location.

Birmingham is a young city, with world-leading institutions, maintaining a student population in excess of 80,000. This has helped fuel the expansion of the knowledge economy and innovation in the city. High-profile projects include the Life Sciences Park fronted by the University of Birmingham and the phased expansion of Innovation Birmingham. This is a Bruntwood-led hub for start-ups and tech companies, and construction of 120,000 sq ft of new space is expected to commence here this year alongside BCU's Steamhouse Innovation Centre.

The office market in Birmingham is dominated by the city centre, particularly regarding new development, although the out-of-town market accounts for one third of total average take-up. 2019 saw activity exceed the five-year average, and we expect this to continue during 2020, which should underpin rental growth as supply dwindles.

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

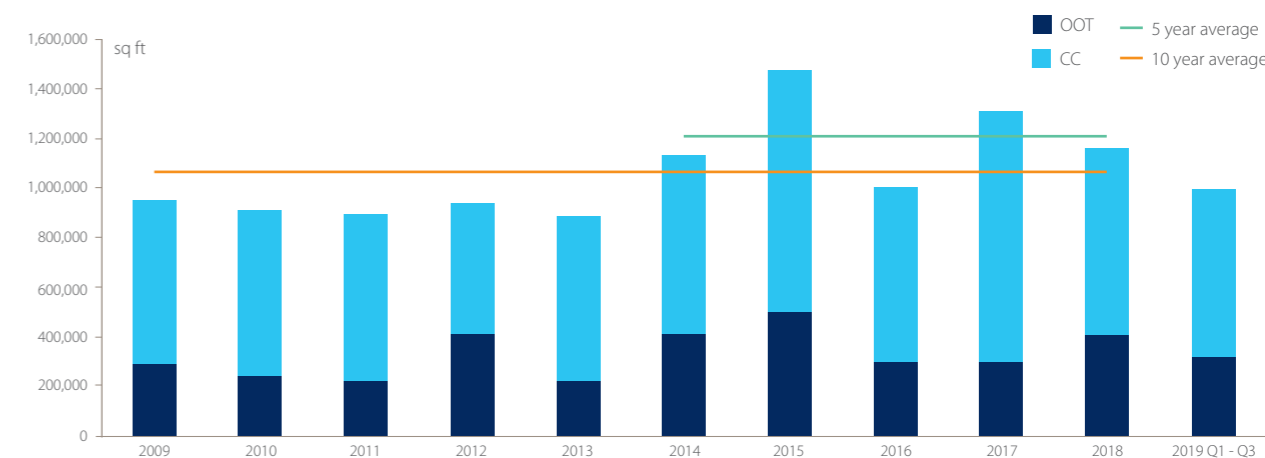
	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	↓	↑
Vacant Space	↓	→	→
Construction Levels	↓↓	↓↓	↓
Leasing Volume	→	→	↑
Investment Volume (all sectors)	→		

Demand for large-scale office accommodation continues to be a major theme in Birmingham. BT Group has recently committed to 283,000 sq ft at 3 Snowhill for a regional hub and the next phase of the government hub programme is underway. The first phase of this, HMRC's 240,000 sq ft pre-let at Three Arena Central, completes in Q1 this year.

Low levels of readily available supply have driven the pre-letting market, which has become so prevalent it can be viewed as a shift in the market. However, there is over 400,000 sq ft of speculative office space due to complete in Birmingham. It is likely that a proportion of this will be taken by the growing serviced offices sector which has seen considerable expansion within Birmingham in the past five years.

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BIRMINGHAM OFFICE TAKE UP



Source: Avison Young

Birmingham continues to attract modest levels of occupier interest from both the retail and leisure sectors. This year has seen the opening of the world's largest Primark, comprising 160,000 sq ft on High Street, along with the largest entertainment store in Europe, the HMV Vault. Prime areas continue to attract retailers, despite CVAs and business failures which have blighted retail across the U.K. Successful retailers over the next year will be those who embrace change, including the growing demand for click and collect services, as well as providing an enhanced shopper experience through diversifying their offerings. Peripheral retail areas are showing signs of distress and private and public bodies push for redevelopment of these spaces into residential, office and other uses. Conversely, Birmingham is attracting a diverse range of food and beverage establishments, many of which are new entrants to the city, which is in contrast to the national picture of saturation.

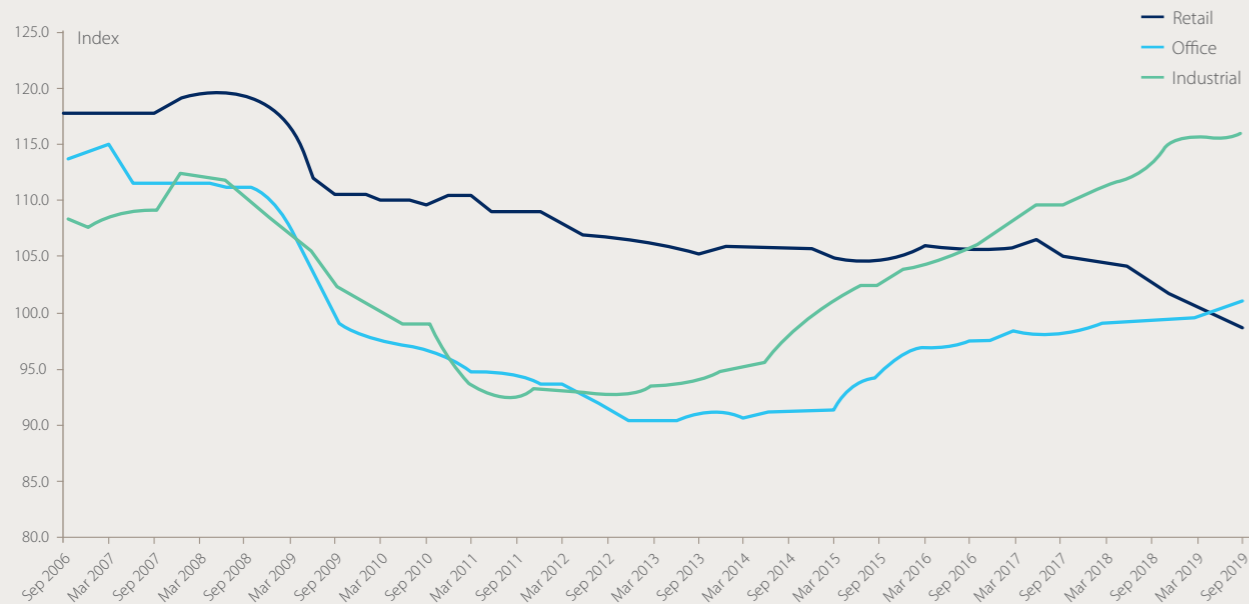
Key locations remain in high demand but we forecast that the market will slow in 2020 due to the rapid growth that the F&B sector has experienced over the last few years.

Birmingham's industrial sector achieved 4.9% growth in capital value in 2019. This strong performance comes despite difficulties in the automotive industry as overseas demand waivers and the structural shift toward electric vehicles accelerates. Jaguar Land Rover in particular has taken measures to adapt its production capabilities to serve this new demand, including refitting current facilities and securing a new battery assembly plant. Other manufacturers will be looking to follow suit in the near future.

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BIRMINGHAM RENTAL GROWTH BY SECTOR

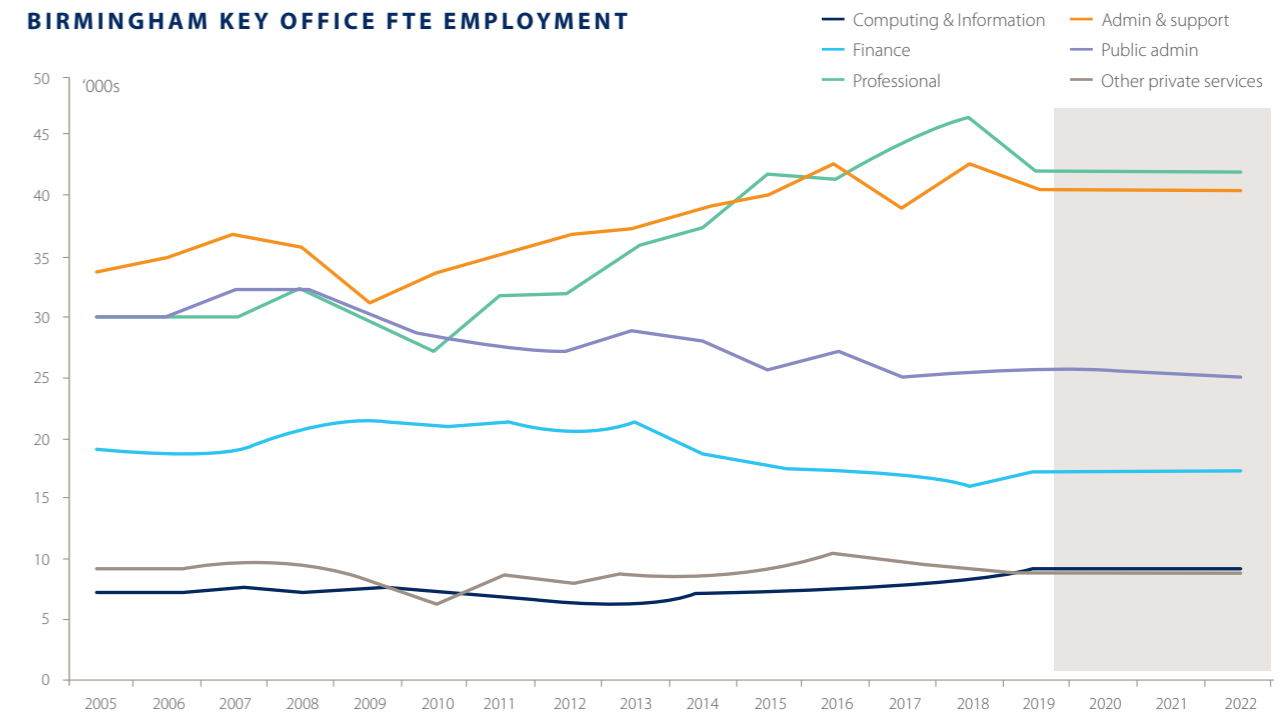


Source: MSCI

This take-up comes from a diverse range of sectors as businesses of all types react to the e-commerce boom, although West Midlands industrial space remains dominated by the automotive manufacturing sector. Being at the confluence of major national transport links, combined with the reduced rents compared to the South East and strong labour availability mean that Birmingham and the West Midlands region are prime locations for many U.K. distributors. The multi-faceted appeal of the region's industrial space is expected to drive take-up in 2020 to achieve or exceed the five-year average. This positive outlook is being reflected in the increasing level of speculative supply as developers look to capitalise on the booming market.

Residential space in Birmingham is maintaining consistent demand as supply is drip-fed into the city. Private renting is becoming increasingly common in the region's housing market as investor confidence grows from Birmingham's significant infrastructure pipeline. Although build costs are becoming a challenge, developers are encouraged by increasing house values and are seeking to tap into the city centre area with high-rise tower blocks of apartments. This will provide significant room for Birmingham's population to grow as well as raising the city's skyline.

BIRMINGHAM KEY OFFICE FTE EMPLOYMENT



Source: Experian

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